

May's IGP-M: Oil Related Items Rising Once Again

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- May's IGP-M registered a 0.52% MoM change (10.7% YoY), above our call (0.29%) and the consensus forecast (0.50%).
- IPA-Agro increased 0.16% MoM, with the trend plunging to 10.4% from 17.0% 3MMA-saar, close to the 11.8% YoY reading. Grains decreased 0.2%, though we still see tight supplies, thanks to the ongoing conflict in Eastern Europe and weather issues affecting both LatAm and U.S. crops.
- IPA-Industrial increased 0.57% MoM, bringing the trend to 14.2% from 19.9% 3MMA-saar, still slightly above the 10.4% YoY print. Oil-related items rebounded and are now increasing (+1.8% MoM). We highlight that oil prices have continued to rise in USD terms since May 20 (+7%). While cushioned by the BRL's recent rally (+3.5% since May 20), we see as a risk for the coming reading.
- IPA-industrial core gauge accelerated a bit at the margin, though is still below the YoY reading. All in all, IGP's outlook remain foggy given the BRL's volatility, the geopolitical shock from the Russia-Ukraine conflict, and the supply chain risks stemming from China's zero-COVID policies.
- Our tracking is at 11.5% for IGP-M 2022, but we do recognize upside risks.

May's IGP-M registered a 0.52% MoM change (10.7% YoY), above our call (0.29%) and the consensus forecast (0.50%). 0.52% MoM is below the average for May (0.67%). The headline trend decelerated to 15.2% from 17.6% 3MMA-saar, above the YoY change.

IPA-Agro increased 0.16% MoM, with the trend plunging to 10.4% from 17.0% 3MMA-saar, close to the 11.8% YoY reading. Grains decreased 0.2%, though we still see tight supplies, thanks to the ongoing conflict in Eastern Europe and weather issues affecting both LatAm and U.S. crops. In recent news, a grain-export corridor could be opened via Turkey, providing some relief for the global food crises, as Ukraine's Black Sea ports continue to be blocked by Russia. Additionally, In natura (fresh/natural) product prices continue to decrease (-5.5% MoM), in line with winter seasonality. Meanwhile, livestock prices decelerated, with poultry +1% MoM (from +4%) and cattle -3% MoM.

IPA-Industrial increased 0.57% MoM, bringing the trend to 14.2% from 19.9% 3MMA-saar, still slightly above the 10.4% YoY print. Oil-related items rebounded and are now increasing (1.8% MoM). We highlight that oil prices continued to rise in USD terms since May 20 (+7%). While cushioned by the BRL's recent rally (+3.5% since May 20), we see as a risk for the coming reading. Finally, iron ore prices continued to plunge as lockdowns affected Tangshan, a top steelmaking hub in China. However, at the margin restrictions are being lifted, which should provide some support for prices down the road.

IPA-industrial core gauge accelerated a bit at the margin, though is still below the YoY reading. This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it is

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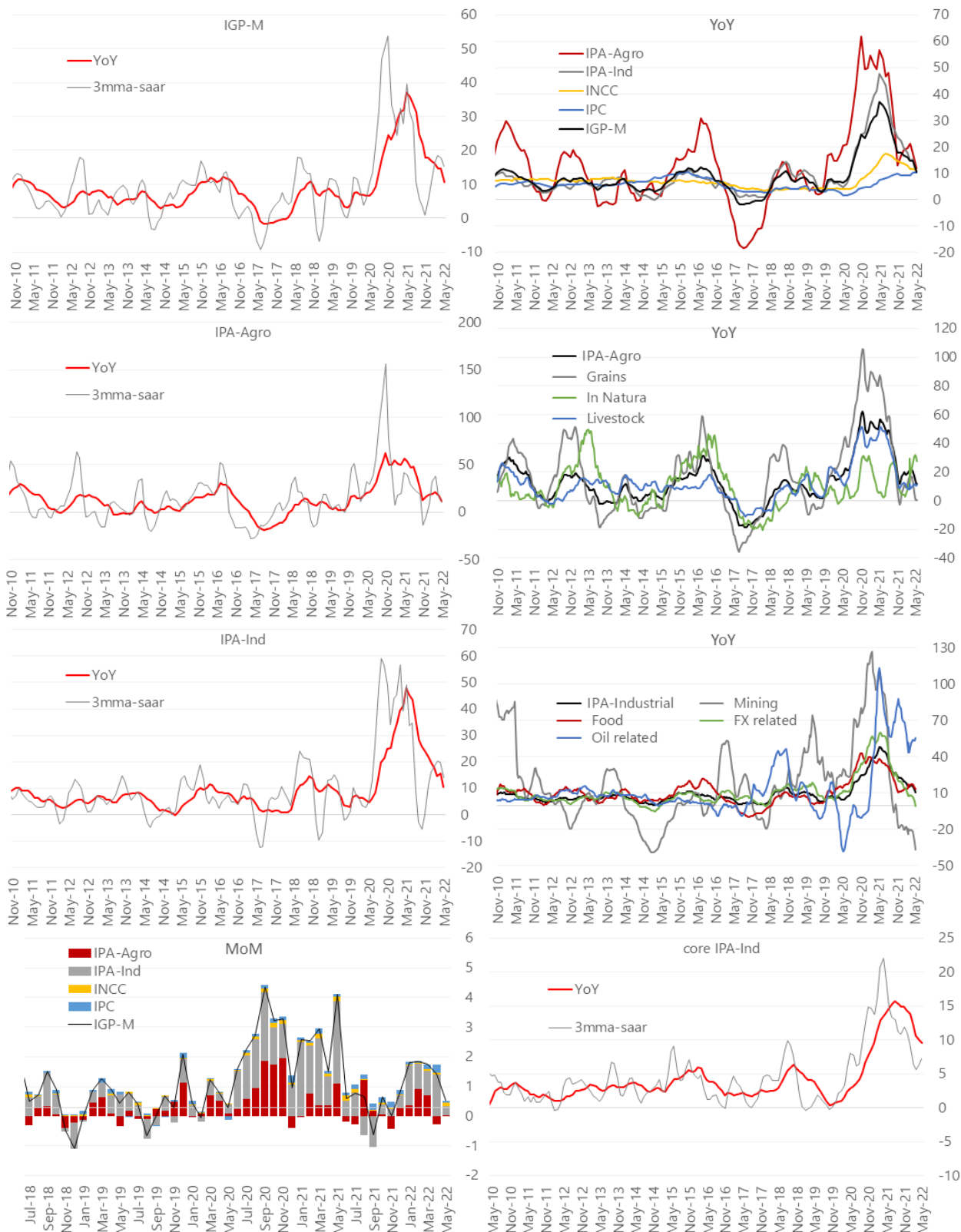
more optimistic (or less pessimistic) news for IPCA. Nevertheless, the impact of the Russia-Ukraine conflict and the lockdowns in China not only on commodities but also on the global supply chain makes us more skeptical about the continuation of this trend during the upcoming months.

All in all, IGP's outlook remains foggy given the BRL's volatility, the geopolitical shock from the Russia-Ukraine conflict, and the supply chain risks from China's zero-COVID policy. For the coming readings, iron ore remains a downside risk, but the rally in oil prices could offset the downward trend. IGP-M is running at 7.5% YTD. We still see a backlog of IGP increases that could reach IPCA in the coming months.

Our tracking is at 11.5% for IGP-M 2022, but we do recognize upside risks.



Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 2. IGP-M, Groups and Qualitative Measures (continued)

IGP chained %MoM	Mar-22			Apr-22			May-22		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	1.18	1.74	2.37	2.48	1.41	0.41	0.10	0.52	
IPA	1.44	2.07	2.80	2.81	1.45	0.19	-0.08	0.45	
IPA-Agro	3.62	3.22	2.28	0.90	-1.36	-2.34	-1.59	0.16	
Grains	6.87	5.84	3.17	-1.14	-6.40	-8.05	-4.82	-0.18	
In Natura	6.52	8.12	8.92	9.84	6.12	2.63	-1.87	-5.49	
Livestock	2.33	2.83	3.49	4.24	4.57	3.22	1.58	0.76	
IPA-Industrial	0.54	1.59	3.02	3.61	2.62	1.24	0.54	0.57	
Mining	-2.15	-1.03	2.22	0.77	-1.45	-3.36	-3.17	-4.10	
Food	1.48	2.51	3.35	3.04	1.94	0.31	-0.20	-0.39	
FX related	-0.29	0.22	1.64	1.86	1.28	0.70	0.47	0.52	
Oil related	2.51	7.23	12.00	16.34	11.14	4.31	0.65	1.85	
INCC	0.34	0.73	0.86	1.17	0.87	0.95	0.74	1.49	
IPC	0.47	0.86	1.35	1.67	1.53	1.08	0.54	0.35	

IGP chained %YoY	Mar-22			Apr-22			May-22		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	14.6	14.8	15.6	15.6	14.7	13.5	12.1	10.7	
IPA	16.3	16.5	17.6	17.5	16.1	14.5	12.7	10.8	
IPA-Agro	20.4	21.2	21.0	20.0	17.4	14.9	12.5	11.9	
Grains	16.5	17.4	15.9	11.9	6.2	1.5	0.6	0.4	
In Natura	13.7	18.8	24.4	29.6	30.7	31.9	30.8	27.4	
Livestock	7.9	8.7	10.1	11.5	11.9	10.8	10.2	10.8	
IPA-Industrial	14.7	14.7	16.3	16.5	15.6	14.3	12.7	10.4	
Mining	-23.7	-21.3	-20.2	-19.7	-21.9	-26.1	-30.4	-37.0	
Food	14.7	15.9	17.6	17.3	17.2	15.7	14.5	13.6	
FX related	7.8	7.6	8.6	8.9	6.9	5.3	2.8	-1.0	
Oil related	43.2	43.2	51.3	52.0	53.7	52.9	53.1	55.1	
INCC	11.7	11.6	11.5	11.6	11.5	11.5	11.3	11.2	
IPC	9.2	9.2	9.7	10.1	10.4	10.6	10.3	10.1	

Sources for all charts: FGV and Santander.

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